

McGladrey & Pullen

Certified Public Accountants

TOWN OF COLCHESTER, CONNECTICUT

FINANCIAL REPORT

JUNE 30, 2007

TOWN OF COLCHESTER, CONNECTICUT

FINANCIAL REPORT

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TOWN OF COLCHESTER, CONNECTICUT

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Financial Section

McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable First Selectman and
Members of the Board of Finance
Town of Colchester, Connecticut

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Colchester, Connecticut (the "Town") as of and for the year ended June 30, 2007, which collectively comprises the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town of Colchester's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Colchester, Connecticut as of June 30, 2007, and the respective changes in financial position, and where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards," we have also issued our report dated January 28, 2008 on our consideration of the Town of Colchester, Connecticut's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The management discussion and analysis on pages 3 through 13 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budgetary detail, combining and individual nonmajor fund statements, capital asset schedules and other schedule, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary detail, combining and individual nonmajor fund statements, capital asset schedules and other schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The prior year comparative information has been derived from the Town's 2006 financial statements and, in our report dated November 2, 2006, we expressed unqualified opinions on the respective financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

McGladrey & Pullen, LLP

New Haven, Connecticut
January 28, 2008

Town of Colchester, Connecticut
Management's Discussion and Analysis
June 30, 2007

As management of the Town of Colchester, Connecticut we offer readers of the financial statements this overview and analysis of the financial performance of the Town of Colchester for the fiscal year ended June 30, 2007. Please read it in conjunction with the Town's financial statements, which immediately follow this section.

Financial Highlights

- ▶ The Town's total net assets at the close of the fiscal year were \$75,836,245, an increase of \$1,328,231 over the previous fiscal year. Total net assets of Governmental Activities at fiscal year-end were \$72,132,334 and total net assets for Business-Type Activities were \$3,703,911. Of the Town's total net assets at June 30, 2007, \$10,029,509 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- ▶ At the end of the current fiscal year, the total fund balance for the General Fund was \$5,029,527, a decrease of \$971,216 from the prior fiscal year. Of the total General Fund fund balance as of June 30, 2007, \$4,129,805 represents unreserved/undesignated fund balance of the General Fund. Unreserved/undesignated General Fund fund balance represents 8.6% of total General Fund expenditures (\$47,851,150). The Town of Colchester's governmental funds reported combined ending fund balances of \$5,548,257, a decrease of \$1,811,691 from the prior fiscal year.
- ▶ The Town of Colchester's total bonded debt had a decrease of \$3,855,000 from the prior fiscal year.

Overview of the Financial Statements

This annual report consists of three parts: 1) management's discussion and analysis (this section), 2) the basic financial statements and 3) an additional section that presents combining statements for non-major governmental funds and internal service funds. The basic financial statements include two kinds of statements:

- ▶ The first two statements are government-wide financial statements that provide both long-term and short-term information about the Town's overall financial status.
- ▶ The remaining statements are fund financial statements that focus on individual parts of the Town government, reporting the Town's operations in more detail than the government-wide statements.
- ▶ The governmental funds statements tell how general government services such as police, fire and parks were financed in the short term as well as what remains for future spending.
- ▶ Proprietary funds statements offer short and long-term financial information about the activities the government operates like business, such as the water system.

- ▶ Fiduciary funds statements provide information about the financial relationships in which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

It is important to note that the Town of Colchester implemented the new reporting requirements outlined in GASB 34 effective July 1, 2002 and this is the fifth report issued under the new reporting model.

		Fund Financial Statements		
<u>Type of Statements</u>	<u>Government-wide Financial Statements</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
<i>Scope</i>	Entire Town government (except fiduciary activities)	The activities of the Town that are not proprietary or fiduciary, such as police, fire and parks.	Activities the Town operates similar to businesses; the water system.	Instances in which the Town administers resources on behalf of someone else such as student activity funds.
<i>Required financial statements</i>	<ul style="list-style-type: none"> ➤ Statement of net assets ➤ Statement of activities 	<ul style="list-style-type: none"> ➤ Balance sheet ➤ Statement of revenues, expenditures and changes in fund balances. 	<ul style="list-style-type: none"> ➤ Statement of net assets. ➤ Statement of revenues, expenses, changes in fund net assets. ➤ Statement of cash flows. 	<ul style="list-style-type: none"> ➤ Statement of fiduciary net assets. ➤ Statement of changes in fiduciary net assets.
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital, and short-term and long-term.	All assets and liabilities, both financial and capital, and short-term and long-term.
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash are received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during year, regardless of when cash is received or paid.	All additions and deductions during the year regardless of when cash is received or paid.

Figure A-1 summarizes the major features of the Town’s financial statements, including the portion of the Town government they cover and the types of information that they contain. The remainder of this overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town of Colchester's finances. The statement of net assets and the statement of activities present financial information on all of the Town's assets, liabilities, expenses and revenues regardless of actual collections or disbursements. The statements provide both long-term and short-term information about the Town's overall financial status.

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's assets and liabilities.

- ▶ Over time, increases or decreases in the Town's net assets can be an indicator of whether its financial health is improving or deteriorating, respectively.
- ▶ Other non-financial indicators need to be considered such as changes in the Town's property tax base, growth in school enrollment and the condition of the Town's infrastructure, i.e., roads, etc.

The statement of net assets presents information on all of Colchester's assets and liabilities with the difference reported as net assets. The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in some future fiscal year, such as uncollected receivables for tax revenue and earned but unpaid expenses.

The government-wide financial statements for the Town of Colchester are divided into two categories:

- ▶ Governmental activities represent most of the Town's basic services such as fire and police protection, public works, social and human services, parks and recreation, education and general administration.
- ▶ Business-type activities represent charges for fees to customers to help cover the costs of certain services it provides. The Town's water operation is included here.

The government-wide financial statements (statement of net assets and statement of activities) can be found on pages 15-16 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's funds, focusing on its most significant or "major" funds and not the Town as a whole. Funds are a method of providing an accounting mechanism in order to provide accountability over resources that have been segregated for specific activities or objectives. The Town of Colchester uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town of Colchester has three types of funds:

- ▶ ***Governmental funds*** include most of the Town's basic services which focus on how much cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. These statements provide a detailed short-term view that helps you determine whether there are more or fewer resources that can be spent in the near future to finance the town's programs. The government-wide statement of activities provides a broader view of the governmental activities than the governmental fund focus. The statement of net activities can be compared with the fund financial statements to better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.
- ▶ ***Proprietary funds*** are generally used for reporting services for which the Town charges a fee such as the water operations for the Town. They are reported in the same way as the government-wide statements. The Town has two types of proprietary funds. One is the enterprise fund and the other is the internal service fund.
- ▶ The enterprise fund is the same as the business-type activities. Although it provides the same type of information as the government-wide financial statements, it includes more detail and has additional information reported such as cash flows.
- ▶ The internal service fund is used to report activities that provide self-insured medical services funded by other Town programs or activities. The internal service fund transactions are included in the government-wide financial statements.
- ▶ ***Fiduciary funds*** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to provide services to the Town's constituency. The Town has one agency fund for student activities and one pension trust fund. The accounting for fiduciary funds is much like that used for proprietary funds.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Town's financial status. The Town's combined assets exceeded liabilities by \$75,836,245 at the close of the recent fiscal year.

Net assets of the Town's Governmental Activities increased approximately 1.6% to \$72,132,334 and total net assets for Business-type Activities increased approximately 6.3% to \$3,703,911. The amount of \$65,806,736 (\$62,606,766 for Governmental Activities and \$3,199,970 for Business-type Activities) of combined net assets at June 30, 2007, is restricted as to the purposes they can be used for or are invested in capital assets, net of related debt (buildings, roads, bridges, and so on). The remaining balance of \$10,029,509 (\$9,525,568 for Governmental Activities and \$503,941 for Business-type Activities) is unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors.

The most significant portion of the Town of Colchester's net assets (86.8%) reflects its investment in capital assets (i.e., land, buildings, vehicles, machinery & equipment and infrastructure). The Town uses these capital assets to provide services to citizens. Although the Town of Colchester's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves may not be used to liquidate these liabilities.

TOWN OF COLCHESTER, CONNECTICUT
STATEMENT OF NET ASSETS
JUNE 30, 2007 AND 2006

	June 30, 2007			June 30, 2006		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 16,843,792	\$ 579,396	\$ 17,423,188	\$ 28,050,632	\$ 444,748	\$ 28,495,380
Capital assets	90,466,766	3,534,970	94,001,736	90,675,088	3,523,959	94,199,047
Total assets	107,310,558	4,114,366	111,424,924	118,725,720	3,968,707	122,694,427
Current Liabilities	5,022,224	75,455	5,097,679	13,793,280	78,133	13,871,413
Long-Term liabilities outstanding	30,156,000	335,000	30,491,000	33,910,000	405,000	34,315,000
Total liabilities	35,178,224	410,455	35,588,679	47,703,280	483,133	48,186,413
Net Assets:						
Invested in capital assets, net of related debt	62,606,766	3,199,970	65,806,736	59,030,088	3,118,959	62,149,047
Unrestricted	9,525,568	503,941	10,029,509	11,992,352	366,615	12,358,967
Total Net Assets	\$ 72,132,334	\$ 3,703,911	\$ 75,836,245	\$ 71,022,440	\$ 3,485,574	\$ 74,508,014

Change in net assets. The Town's total net assets increased by \$1,328,231 during the fiscal year, with net assets of Governmental Activities increasing by \$1,109,894, and net assets of Business-type Activities increasing by \$218,337.

	Year Ended June 30, 2007			Year Ended June 30, 2006		
	Primary Govt.			Primary Govt.		
	Govt. Activities	Business type Activities	Total	Govt. Activities	Business type Activities	Total
Revenues						
Program Revenues:						
Charges for Services	\$ 3,085,781	\$ 943,177	\$ 4,028,958	\$ 3,236,179	\$ 952,429	\$ 4,188,608
Operating Grants and Contributions	17,386,566	-	17,386,566	17,115,256	-	17,115,256
Capital Grants and Contributions	4,036,180	-	4,036,180	11,213,845	-	11,213,845
General Revenues:						
Property Tax	28,535,212	-	28,535,212	26,726,118	-	26,726,118
Grants not restricted to specific programs	167,837	-	167,837	183,836	-	183,836
Unrestricted investment earnings	588,215	4,872	593,087	410,241	4,984	415,225
Donation of capital assets	261,030	-	261,030	-	-	-
Total Revenues	54,060,821	948,049	55,008,870	58,885,475	957,413	59,842,888
Expenses						
General Government	4,578,030	-	4,578,030	4,574,438	-	4,574,438
Public Safety	2,084,319	-	2,084,319	2,299,923	-	2,299,923
Public Works	3,294,988	-	3,294,988	3,356,810	-	3,356,810
Public Health & Welfare	931,186	-	931,186	1,096,979	-	1,096,979
Civic and Cultural	1,916,572	-	1,916,572	1,792,526	-	1,792,526
Education	38,917,003	-	38,917,003	34,279,966	-	34,279,966
Other	-	718,722	718,722	-	681,130	681,130
Interest on long term bonds	1,228,829	10,990	1,239,819	1,528,734	23,790	1,552,524
Total Expenses	52,950,927	729,712	53,680,639	48,929,376	704,920	49,634,296
Change in Net Assets	1,109,894	218,337	1,328,231	9,956,099	252,493	10,208,592
Net Assets Beginning	71,022,440	3,485,574	74,508,014	61,066,341	3,233,081	64,299,422
Net Assets Ending	<u>\$ 72,132,334</u>	<u>\$ 3,703,911</u>	<u>\$ 75,836,245</u>	<u>\$ 71,022,440</u>	<u>\$ 3,485,574</u>	<u>\$ 74,508,014</u>

Governmental Activities

Approximately 52.8% of the revenues were generated from property taxes, followed by 45.3% from program revenues, which include governmental revenues for Education, then 1.1% was derived from investment earnings, .5% from the donation of capital assets, and finally, .3% from other unrestricted grants.

Major revenue factors included additional property tax revenue due to an increase in the mill rate of .72 mills over the 2005-2006 fiscal year mill rate to support the increase in the Education budget as a result of opening a new elementary school. There was also a reduction in the amount received as capital grant funds from the State of Connecticut School Construction progress payments for the construction of the new elementary school and the expansion/renovation of the intermediate school as the projects neared completion during the year.

The Town's current levy collected tax rate was 97.44%, a decrease of .40% over the previous year current levy collected tax rate of 97.84%.

For governmental activities, 73.5% of the Town's expenditures relate to education, 8.6% relate to general government, 3.9% relate to public safety, 6.2% relate to public works, 3.6% relate to civic and cultural, 1.8% relate to public health and welfare and the remaining 2.4% relate to interest payments on long-term debt.

Major expenditure factors include an increase in Education, mainly as a result of an approved Education budget increase of 7.49% over the 2005-2006 budget due to the opening of a new elementary school, and a decrease in interest payments on long-term bonds nearing final maturity dates.

Business-Type Activities

Business-type activities increased the Town's net assets by \$218,337. Key elements of this increase are:

- ▶ Establishment of water use fees sufficient to fund operating costs and depreciation, and provide funding for future capital needs.

Financial Analysis of the Town's Fund Financial Statements

Governmental funds. The focus of the Town of Colchester's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. This information is useful in assessing the Town's financial requirements. The unreserved fund balance can serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year.

As the Town completed the year, its governmental funds reported combined fund balances of \$5,548,257, a decrease from \$7,359,948 as of June 30, 2006. This decrease is mainly due to expenditures related to the construction of the new elementary school, and a planned use of undesignated fund balance in the General Fund to minimize the tax impact from the additional operating costs associated with the new school.

The general fund is the chief operating fund for the Town of Colchester. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4,855,205 while total fund balance reached \$5,029,527. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 10.6% of the total general fund expenditures.

At June 30, 2007, the Town of Colchester's General Fund decreased by \$971,216 from the previous year. Key factors contributing to this decrease were the planned use of fund balance to offset the impact of opening the new elementary school, a slight decrease in the collection rate for the current year property tax levy offset by increases in investment income and additional revenue from the State of Connecticut for Special Education and property tax relief, and increases in funding for future capital needs.

Proprietary funds. The Town of Colchester's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Fund at the end of the year amounted to \$503,941. The Water Fund experienced an increase in net assets of \$218,337. The explanations concerning the finances of the Water Fund were addressed earlier in the discussion of the Town of Colchester's Business-type activities.

General Fund Budgetary Highlights

Additional appropriations were approved during the year totaling \$209,396, of which \$17,770 was funded by additional revenue and \$191,626 was appropriated from fund balance. These additional appropriations were for additional Police overtime associated with special duty assignments for which additional revenues were received, legal costs associated with Charter Revision, and to provide funding for future capital expenditures. Budget transfers approved during the year included additional funds for snow removal, legal costs for contract negotiations and planning and zoning enforcement issues, increased workers compensation insurance costs, and funding for capital purchases for the Police and Public Works departments. Funds for these transfers were available from vacant positions throughout various Town departments and contingency funds.

Capital Asset and Debt Administration

Capital Assets. The Town of Colchester's investment in capital assets for its governmental and business type activities as of June 30, 2007, amount to \$94,001,736 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, sidewalks, roads, highways, bridges and water and sewer lines (infrastructure). The total decrease in the Town of Colchester's investment in capital assets for the current fiscal year was \$197,312 or approximately .2 percent.

Major capital asset events during the current fiscal year included the following:

- ▶ The total construction in progress for governmental activities decreased by \$40,561,155 from the prior fiscal year, mainly due to the completion of a new elementary school and expansion of the intermediate school.
- ▶ Machinery and equipment for governmental activities increased by \$423,547 mainly due to the purchase of new technology and furniture and fixtures for the elementary and intermediate schools.

Town of Colchester Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 3,432,379	\$ 3,171,349	\$ -	\$ -	\$ 3,432,379	\$ 3,171,349
Land Improvements	428,441	496,618	8,969	9,966	437,410	506,584
Bldng. & Improvements	68,932,961	28,026,285	1,216,242	1,263,375	70,149,203	29,289,660
Machinery & Equipment	2,731,996	2,308,449	76,698	4,557	2,808,694	2,313,006
Infrastructure	14,910,699	16,080,942	2,024,516	2,077,431	16,935,215	18,158,373
Construction in Progress	30,290	40,591,445	208,545	168,631	238,835	40,760,076
Total	\$ 90,466,766	\$ 90,675,088	\$ 3,534,970	\$ 3,523,960	\$ 94,001,736	\$ 94,199,048

Additional information on the Town of Colchester's capital assets can be found in Note 7 of this report.

Long-Term Debt. At year-end the Town of Colchester had \$28,195,000 in bonds outstanding. Of this amount \$335,000 is debt, which is funded through the Water Enterprise fund. All the bonds carry bond insurance and are backed by the full faith and credit of the Town of Colchester.

Town of Colchester Outstanding Debt						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2006	2005
General Obligation Bonds (backed by the Town)	\$ 27,860,000	\$ 31,645,000	\$ 335,000	\$ 405,000	\$ 28,195,000	\$ 32,050,000

The Town of Colchester's total bonded debt had a decrease of \$3,855,000 (approximately 12.0 percent) as of the end of the fiscal year.

In July 2002, Moody's Investors Service upgraded the Town's bond rating to A1 from A2. In addition, Fitch Ratings upgraded the rating to AA- from A+. In June 2005, Moody's reaffirmed the A1 rating of the Town's outstanding debt and assigned an underlying rating of A1 to bonds issued at that time.

Additional information on the Town of Colchester's long-term debt can be found in Note 8 of this report.

Economic Factors and Next Year's Budgets and Rates

Although not immune from the effects of the national economic downturn, the Town of Colchester's unemployment rate of 3.8% as of June 2007 was less than the State of Connecticut rate of 4.6% for the same time period.

Colchester continues to grow. The 2000 census revealed that the Town's population grew by approximately one-third from 1990 to 2000. The Town was the fastest growing municipality in CT of those municipalities with a population greater than 5,000. The State of Connecticut Department of Public Health population estimate for Colchester as of July 1, 2006 was 15,421. In addition, in 2005, CNN and Money Magazine named the Town the 57th best place to live in the United States.

In January 2001, the Town adopted the 2001 Plan of Conservation and Development as a blueprint for the future of Colchester. It provides recommendations to encourage the preservation of open space and for meeting the demand for additional retail and service businesses to serve the needs of the residents of Colchester.

An integral part of the plan regarding commercial development in Colchester has included the revitalization of its downtown area. This revitalization included building additions and renovations, new commercial construction, street improvements, and changes in traffic circulation.

In FY 2007-2008, the Town experienced an increase in the value of its grand list of taxable property of approximately 40% as a result of revaluation. In an effort to offset the increases in property taxes for individual taxpayers, the Town is pursuing alternative funding sources, property tax relief options, and energy cost-saving and rebate programs. The final adopted budget for FY 2007-2008 represented a 2.5% increase over the original adopted budget for FY 2006-2007, with no increase in the mill rate as adjusted for revaluation.

Requests for Information

This financial report is designed to provide a general overview of the Town of Colchester's finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed in writing to the Chief Financial Officer, Town of Colchester, 127 Norwich Avenue, Suite 203, Colchester, CT 06415.

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Basic Financial Statements

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Type Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 10,649,402	\$ 279,372	\$ 10,928,774
Receivables (net of allowances for collection losses):			
Property taxes and interest	1,202,457	-	1,202,457
Assessments	386,434	-	386,434
Accounts receivable	34,278	233,895	268,173
Loans receivable	5,976	-	5,976
Intergovernmental	1,284,234	-	1,284,234
Inventory	32,440	66,129	98,569
Intergovernmental receivable	3,248,571	-	3,248,571
Capital assets, non-depreciable	3,462,669	208,545	3,671,214
Capital assets, net of accumulated depreciation	87,004,097	3,326,425	90,330,522
Total assets	107,310,558	4,114,366	111,424,924
Liabilities			
Accounts payable and accrued liabilities	4,293,541	75,455	4,368,996
Claims payable	483,311	-	483,311
Unearned revenues	208,704	-	208,704
Advance tax collections	36,668	-	36,668
Noncurrent liabilities:			
Due within one year	3,571,000	70,000	3,641,000
Due in more than one year	26,585,000	265,000	26,850,000
Total liabilities	35,178,224	410,455	35,588,679
Net Assets			
Investment in capital assets, net of related debt	62,606,766	3,199,970	65,806,736
Unrestricted	9,525,568	503,941	10,029,509
Total net assets	\$ 72,132,334	\$ 3,703,911	\$ 75,836,245

The notes to the financial statements are an integral part of this statement.

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:							
General government	\$ (4,578,030)	\$ 621,117	\$ 421,326	\$ 28,279	\$ (3,507,308)	\$ -	\$ (3,507,308)
Public safety	(2,084,319)	432,107	100,544	-	(1,551,668)	-	(1,551,668)
Public works	(3,294,988)	1,002,562	302,813	81,650	(1,907,963)	-	(1,907,963)
Civic and cultural	(1,916,572)	45,060	50,439	10,618	(1,810,455)	-	(1,810,455)
Public health and welfare	(931,186)	412,893	583,738	-	65,445	-	65,445
Education	(38,917,003)	572,042	15,927,706	3,915,633	(18,501,622)	-	(18,501,622)
Interest on long-term debt	(1,228,829)	-	-	-	(1,228,829)	-	(1,228,829)
Total governmental activities	(52,950,927)	3,085,781	17,386,566	4,036,180	(28,442,400)	-	(28,442,400)
Business-Type Activities:							
Water	(729,712)	943,177	-	-	-	213,465	213,465
Total business-type activities	(729,712)	943,177	-	-	-	213,465	213,465
Total primary government	\$ (53,680,639)	\$ 4,028,958	\$ 17,386,566	\$ 4,036,180	(28,442,400)	213,465	(28,228,935)
General revenues:							
Property taxes					28,535,212	-	28,535,212
Grants and contributions not restricted to specific programs					167,837	-	167,837
Unrestricted investment earnings					588,215	4,872	593,087
Donation of capital assets					261,030	-	261,030
Total general revenues					29,552,294	4,872	29,557,166
Change in net assets					1,109,894	218,337	1,328,231
Net assets - beginning					71,022,440	3,485,574	74,508,014
Net assets - ending					\$ 72,132,334	\$ 3,703,911	\$ 75,836,245

The notes to the financial statements are an integral part of this statement

TOWN OF COLCHESTER, CONNECTICUT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

	Major Funds			Total Governmental Funds
	General Fund	Bonded Projects Fund	Nonmajor Governmental Funds	
Assets				
Cash and cash equivalents	\$ 6,640,799	\$ -	\$ 2,990,943	\$ 9,631,742
Receivables (net of allowances for collection losses):				
Property taxes	1,202,457	-	-	1,202,457
Assessments and user charges	-	-	386,434	386,434
Intergovernmental	4,371,899	-	160,906	4,532,805
Accounts receivable	24,819	-	9,459	34,278
Loans	-	-	5,976	5,976
Inventory	31,180	-	1,260	32,440
	<u>\$ 12,271,154</u>	<u>\$ -</u>	<u>\$ 3,554,978</u>	<u>\$ 15,826,132</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 1,780,668	\$ 2,219,113	\$ 221,997	\$ 4,221,778
Deferred revenue	5,424,291	-	386,434	5,810,725
Advance tax collections	36,668	-	-	36,668
Unearned revenue	-	-	208,704	208,704
Total liabilities	<u>7,241,627</u>	<u>2,219,113</u>	<u>817,135</u>	<u>10,277,875</u>
Fund balances (deficits)				
Reserved for:				
Encumbrances	143,142	163,106	70,121	376,369
Loans	-	-	5,976	5,976
Inventory	31,180	-	1,260	32,440
Unreserved:				
Designated for subsequent years budget	725,400			725,400
Designated for specific projects	-	-	70,755	70,755
Unreserved/undesignated, reported in:				
General fund	4,129,805	-		4,129,805
Special revenue funds	-	-	1,452,804	1,452,804
Capital projects funds	-	(2,382,219)	1,136,927	(1,245,292)
Total fund balances (deficits)	<u>5,029,527</u>	<u>(2,219,113)</u>	<u>2,737,843</u>	<u>5,548,257</u>
Total liabilities and fund balances	<u>\$ 12,271,154</u>	<u>\$ -</u>	<u>\$ 3,554,978</u>	

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets, net of accumulated depreciation used in governmental activities are not financial resources and, therefore, are not reported in the funds.	90,466,766
Other long-term assets are available to pay for current-period expenditures and, therefore, are deferred in the funds.	5,810,725
Internal service funds are used by management to charge the costs of health insurance premiums to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	534,349
Accrued interest payable	(71,763)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(30,156,000)

Net assets of governmental activities \$ 72,132,334

The notes to the financial statements are an integral part of this statement.

TOWN OF COLCHESTER, CONNECTICUT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007**

	Major Funds		Nonmajor	Total
	General	Bonded	Governmental	Governmental
	Fund	Projects	Funds	Funds
	Fund	Fund	Funds	Funds
REVENUES				
Property taxes	\$ 28,315,301	\$ -	\$ -	\$ 28,315,301
Intergovernmental revenues	16,604,214	3,648,653	2,164,045	22,416,912
Revenues from use of money	503,322	-	21,665	524,987
Fees, permits and sales	773,165	28,279	591,817	1,393,261
Charges for services and assessments	452,736	-	1,212,114	1,664,850
Other	229,901	-	278,771	508,672
Total revenues	46,878,639	3,676,932	4,268,412	54,823,983
EXPENDITURES				
Current:				
General government	2,888,173	-	12,339	2,900,512
Public safety	1,761,820	-	127,953	1,889,773
Public works	2,096,713	-	750,458	2,847,171
Public health and welfare	400,079	-	521,786	921,865
Civic and cultural	1,295,556	-	412,291	1,707,847
Education	33,976,567	-	1,903,003	35,879,570
Debt service	5,021,082	-	119,352	5,140,434
Capital outlay	-	4,828,587	519,915	5,348,502
Total expenditures	47,439,990	4,828,587	4,367,097	56,635,674
Revenue over (under)				
expenditures	(561,351)	(1,151,655)	(98,685)	(1,811,691)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,295	105,000	306,160	412,455
Transfers out	(411,160)	-	(1,295)	(412,455)
Total other financing				
sources (uses)	(409,865)	105,000	304,865	-
Net change in fund balances	(971,216)	(1,046,655)	206,180	(1,811,691)
FUND BALANCES (DEFICITS), beginning	6,000,743	(1,172,458)	2,531,663	7,359,948
FUND BALANCES (DEFICITS), ending	\$ 5,029,527	\$ (2,219,113)	\$ 2,737,843	\$ 5,548,257

The notes to the financial statements are an integral part of this statement.

TOWN OF COLCHESTER, CONNECTICUT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2007

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – total governmental funds	\$ (1,811,691)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(208,322)
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Net changes in revenues and receivables in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(989,791)
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	3,785,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	95,605
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The net revenue of certain activities of internal service funds is reported with governmental activities.	239,093
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Change in net assets of governmental activities	<u>\$ 1,109,894</u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF REVENUES AND EXPENDITURES - BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
REVENUES				
Property taxes, interest and lien fees	\$ 28,923,875	\$ 28,923,875	\$ 28,315,301	\$ (608,574)
Intergovernmental revenues	14,191,035	14,191,035	14,590,214	399,179
Revenues from the use of money	220,000	220,000	503,322	283,322
Charges for services	367,000	384,770	452,736	67,966
Fees, permits and other	758,520	758,520	773,165	14,645
Other revenues	111,585	111,585	253,095	141,510
Total revenues	44,572,015	44,589,785	44,887,833	298,048
EXPENDITURES				
General government	2,931,924	2,964,791	2,891,010	73,781
Public works	2,131,663	2,115,191	2,090,962	24,229
Public safety	1,835,036	1,829,012	1,767,568	61,444
Civic and cultural	1,327,419	1,320,656	1,296,792	23,864
Public health and welfare	413,852	419,097	399,854	19,243
Education	31,901,948	31,901,948	31,886,030	15,918
Debt service	5,021,082	5,021,082	5,021,082	-
Total expenditures	45,562,924	45,571,777	45,353,298	218,479
Revenues over (under)				
expenditures	(990,909)	(981,992)	(465,465)	516,527
OTHER FINANCING SOURCES (USES)				
Transfers in	1,526	1,526	1,295	(231)
Transfers out	(210,617)	(411,160)	(411,160)	-
Total other financing (uses)	(209,091)	(409,634)	(409,865)	(231)
Revenues and other financing				
sources over (under) expenditures				
and other financing uses	\$ (1,200,000)	\$ (1,391,626)	\$ (875,330)	\$ 516,296

The notes to the financial statements are an integral part of this statement.

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2007

	Business-Type Activities Enterprise Fund Water Fund	Governmental Activities Internal Service Fund Medical Self- Insurance Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 279,372	\$ 1,017,660
Accounts receivable	233,895	-
Inventory	66,129	-
Total current assets	579,396	1,017,660
Capital Assets, net of accumulated depreciation	3,534,970	
Total assets	4,114,366	1,017,660
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	75,455	-
Claims payable - current	-	77,126
Bonds payable - current	70,000	-
Total current liabilities	145,455	77,126
Noncurrent Liabilities:		
Claims payable	-	406,185
Bonds payable	265,000	-
Total noncurrent liabilities	265,000	406,185
Total liabilities	410,455	483,311
NET ASSETS		
Invested in capital assets, net of related debt	3,199,970	-
Unrestricted	503,941	534,349
Total net assets	\$ 3,703,911	\$ 534,349

The notes to the financial statements are an integral part of this statement.

TOWN OF COLCHESTER, CONNECTICUT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS**

For the Year Ended June 30, 2007

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund Medical Self- Insurance Fund
	Water Fund	
OPERATING REVENUES		
Water use fees and charges	\$ 943,177	\$ -
Premiums	-	5,057,251
Total operating revenues	<u>943,177</u>	<u>5,057,251</u>
OPERATING EXPENSES		
Claims/operating	610,064	4,123,391
Depreciation	108,658	-
Administration	-	711,137
Total operating expenses	<u>718,722</u>	<u>4,834,528</u>
Operating income	<u>224,455</u>	<u>222,723</u>
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	4,872	16,370
Interest expense	(10,990)	-
Total nonoperating revenue (expenses)	<u>(6,118)</u>	<u>16,370</u>
Change in net assets	218,337	239,093
FUND NET ASSETS, beginning	<u>3,485,574</u>	<u>295,256</u>
FUND NET ASSETS, ending	<u>\$ 3,703,911</u>	<u>\$ 534,349</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended June 30, 2007

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
	Water Fund	Medical Self- Insurance Fund
Cash Flows From Operating Activities		
Cash received from charges for services	\$ 966,090	\$ 5,057,251
Cash paid to vendors and beneficiaries	(640,221)	(4,791,910)
Net cash provided by operating activities	325,869	265,341
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(119,669)	-
Interest paid	(10,990)	-
Principal payments of debt	(70,000)	-
Net cash used in capital and related financing activities	(200,659)	-
Cash Flows From Investing Activities		
Interest on cash and cash equivalents	4,872	16,370
Net increase in cash and cash equivalents	130,082	281,711
Cash and Cash Equivalents		
Beginning	149,290	735,949
Ending	<u>\$ 279,372</u>	<u>\$ 1,017,660</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 224,455	\$ 222,723
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	108,658	-
Changes in assets and liabilities:		
Decrease in accounts receivable	22,913	-
Increase in inventories	(27,479)	-
Decrease in accounts payable	(2,678)	-
Increase in claims payable	-	42,618
Net cash provided by operating activities	\$ 325,869	\$ 265,341

The notes to the financial statements are an integral part of this statement.

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

June 30, 2007

	Pension Trust Fund	Private Purpose Trust Fund	Agency Fund
ASSETS			
Cash and cash equivalents	\$ -	\$ 2,257	\$ 279,918
Investments	113,736	-	-
Contribution receivable	-	-	-
Total assets	113,736	2,257	279,918
LIABILITIES			
Deposits held for others	-	-	279,918
Net Assets Held in Trust	\$ 113,736	\$ 2,257	\$ -

The notes to the financial statements are an integral part of this statement.

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

For the Year Ended June 30, 2007

	Pension Trust Fund	Private Purpose Trust Fund
ADDITIONS		
Contributions		
Employee	\$ 22,616	\$ -
Employer	41,689	-
Total contributions	<u>64,305</u>	<u>-</u>
Investment Income		
Interest and dividends	5,700	5
Investment income	<u>5,700</u>	<u>5</u>
Total additions	<u>70,005</u>	<u>5</u>
DEDUCTIONS		
Benefits	-	-
Change in net assets	70,005	5
Net Assets Held in Trust		
Beginning of year	<u>43,731</u>	<u>2,252</u>
End of year	<u>\$ 113,736</u>	<u>\$ 2,257</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

Reporting entity

The Town of Colchester, Connecticut (the "Town") was incorporated as a town in 1698. The Town operates under a Board of Selectmen, Board of Finance and Town Meeting form of government and provides a full range of services including public safety, roads, sanitation, health, social services, culture and recreation, education, planning, zoning, and general administrative services to its residents. The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governments.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Governmental Accounting Standards Board Codification Section 2100 have been considered and there are no agencies or entities which should be presented with the Town.

Government-wide fund and financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year when levied for. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, landfill closure costs, and claims and judgments, are recorded only when payment is due (matured).

Property taxes, when levied for, intergovernmental revenues when the eligibility requirements are met, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, if available. All other revenue items are considered to be measurable only when cash is received by the Town.

The Town reports the following major governmental funds.

The General Fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Bonded Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities or improvements, which are financed by the issuance of general obligation bonds.

The Town reports the following major proprietary fund:

The Water fund accounts for the operations of the water department.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

Additionally, the Town reports the following fund types:

The Internal service fund is used to account for the Town and Board of Education's medical self-insurance fund.

The Pension Trust Fund is used to account for the accumulation of resources to be used for retirement benefits.

The Private-purpose trust fund is used to account for resources legally held in trust for the benefit of individuals, private organizations or other governments.

Agency funds account for monies held as a custodian for outside groups and agencies.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for business-type activities and enterprise fund financial statements, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's internal service funds are charges to other Town funds for medical insurance premiums. Operating expenses for internal service funds include the cost of claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

Property taxes

Property taxes are assessed as of October 1, levied on the following July 1, and billed and generally due in two installments, July 1 and the following January 1. Liens are filed on June 1 following the due date.

Cash equivalents

The Town considers all highly liquid investments and those investments with a maturity of three months or less when purchased to be cash equivalents.

Allowances for doubtful accounts

Accounts and notes receivable are reported net of allowance for doubtful accounts of approximately \$258,000. The allowance for doubtful accounts represents those accounts which are deemed uncollectible based upon collection history and analysis of creditor's ability to pay.

Investments

Investments are stated at fair value based upon quoted market prices. All of the Town's investments are recorded in the Pension Trust Fund. Fixed income funds are reported at fair value based on the unit prices quoted by the fund representing the fair value of the underlying investment. The Connecticut State Treasurer's Short-Term Investment Fund is an investment pool managed by the State of Connecticut Office of the State Treasurer. Investments must be made in instruments authorized by Connecticut General Statutes 3-27c through 3-27e. Investment guidelines are adopted by the State Treasurer. The fair value of the position in the pool is the same as the value of the pool shares.

The balance of the pooled fixed income investments were invested in a pool similar to a 2a-7. These investments are stated at amortized cost. The value of the position in the pool is the same as the value of the pool shares.

Inventories

Inventories are stated at the lower of cost or market determined on the first-in, first-out basis for governmental fund types.

The enterprise fund records inventory at the lower of cost or market using the first-in, first-out method.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

Capital assets

Capital assets, which include property, buildings, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type columns in the government-wide and proprietary fund financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets are capitalized as projects are constructed.

Capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

Capital Assets	Years
Buildings	40-50
Building improvements	20
Distribution and collection systems	50-100
Public domain infrastructure	50
System infrastructure	30
Machinery and equipment	5-20

In the governmental fund financial statements, capital outlay (assets) is reported as expenditures and no depreciation expense is recorded.

Compensated absences

Town and Board of Education employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. Vacation and sick leave expenses to be paid in future periods are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for amounts expected to be paid (matured), for example, as a result of employee resignations and retirements.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

Long-term obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balance as they do not constitute either expenditures or liabilities.

Pension accounting

Pension Trust Fund

Employee contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the Town has made a formal commitment to provide the contributions. Benefits and refunds are recognized when paid. Stand-alone statements are not issued.

Governmental Funds

Expenditures are recognized when they are paid or are expected to be paid with current available resources.

Funding Policy

The Town funds the contributions to its defined benefit pension plan based on an actuarial valuation, which amount is included in the budget.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

Fund equity and net assets

In the government-wide and proprietary fund financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

Unrestricted Net Assets – This category represents the net assets of the Town, which are not restricted for any project or other purpose by third parties.

In the fund financial statements, fund balances of governmental funds are classified in three separate categories. The three categories, and their general meanings, are as follows:

Reserved fund balance - indicates that portion of fund equity that is not available for appropriation or which has been legally segregated for specific purposes.

Unreserved/designated fund balance - indicates that portion of fund equity for which the Town has made tentative plans that are subject to change.

Unreserved/undesignated fund balance - indicates that portion of fund equity which is available for appropriation and expenditure in future periods, or if a deficit, for which future funding will be required.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds, and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$30,156,000 difference are as follows:

Bonds payable	\$ 27,860,000
Landfill closure costs	255,000
Compensated absences	<u>2,041,000</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u><u>\$ 30,156,000</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds, and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$(208,322) difference are as follows:

Capital outlay	\$ 3,706,866
Depreciation expense	(4,125,447)
Donation of capital assets	261,030
Loss on disposal	<u>(50,771)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ (208,322)</u></u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$3,785,000 difference are as follows:

Principal repayments:	
General obligation debt	<u>\$ 3,785,000</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ 3,785,000</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

Note 3. Budgets and Budgetary Accounting

The Town's general budget policies are as follows:

General Fund

The Chief Financial Officer compiles preliminary budgets for all departments and agencies, with the exception of the Board of Education, for presentation by the First Selectman to the Board of Selectmen. After making such alterations or changes as it deems necessary, the Board of Selectmen presents the compiled budget to the Board of Finance. The Board of Education submits its budget directly to the Board of Finance.

The Board of Finance may make such revisions to the Selectmen's and Education budget estimates as it deems desirable, holds one or more public hearings and presents a proposed budget to the Annual Town Meeting which then goes to an automatic referendum.

The legal budget of the Town is a departmental budget.

Subject to certain restrictions, additional appropriations may be approved by the Board of Finance upon recommendations of the Board of Selectmen.

Classification of certain revenues and expenditures under accounting principles generally accepted in the United States of America ("GAAP") differ from classifications used for budgetary purposes.

A reconciliation of General Fund revenues as presented in accordance with GAAP and revenues and other sources presented on the budgetary basis is as follows:

Revenues and transfers, budgetary basis	\$ 44,889,128
Prior year encumbrances cancelled	(23,194)
On-behalf payments paid directly by the State of Connecticut Teachers' Retirement System	<u>2,014,000</u>
Revenues and transfers, GAAP basis	<u><u>\$ 46,879,934</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

A reconciliation of expenditures of the General Fund presented in accordance with GAAP and expenditures and other uses and encumbrances presented on the budgetary basis is as follows:

Expenditures, transfers and encumbrances budgetary basis	\$ 45,764,458
On-behalf payments paid directly by the State of Connecticut Teachers' Retirement System	2,014,000
Encumbrances:	
June 30, 2006	215,834
June 30, 2007	(143,142)
Expenditures and transfers, GAAP basis	<u>\$ 47,851,150</u>

Special revenue funds

The Town does not have legally adopted annual budgets for its special revenue funds. Budgets for the various special revenue funds which are utilized to account for specific grant programs are established in accordance with the requirements of the grantor agencies. Such budgets are nonlapsing and may comprise more than one fiscal year.

Capital project funds

Legal authorization for expenditures of the capital project funds is provided by the related bond ordinances. Capital appropriations do not lapse until completion of the applicable projects.

Note 4. Cash, Cash Equivalents and Investments

Deposits: The Town has a policy that deposits can include demand and savings accounts and certificates of deposit with Connecticut banks. The Town's custodial credit risk policy follows the State of Connecticut requirements that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk based capital ratio.

Investments: The Town and the Pension Trust Fund do not have a credit risk policy for investments, however, it is their practice to follow State statutes. The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: (1) obligations of the United States and its agencies (2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof; and (3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the Connecticut Short Term Investment Fund and the Tax Exempt

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

Proceeds Fund. Other provisions of the Statutes cover specific municipal pension funds with particular investment authority and do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries (i.e., prudent person rule) and the provisions of the applicable plan. The Town and Pension Trust Fund do not have a custodial credit risk policy.

Interest rate risk: The Town does not have a policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, its practice is to structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, or pension payments, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Concentrations: The Town, including the Pension Trust Fund, does not have a policy that limits the amounts invested in any one issuer. However, its practice is to maintain a diversified portfolio to minimize the risk of loss resulting from over-concentration of assets in a specific issuer.

Custodial credit risk:

Deposits: This is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2007, \$4,648,290 of the Town's bank balance of \$5,467,036 was uninsured and uncollateralized.

Investments: This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Cash and cash equivalents of the Town consist of the following at June 30, 2007:

Cash and Cash Equivalents

Deposits with financial institutions	\$ 6,963,858
State of Connecticut Short-Term Investment fund	4,117,089
MBIA-Class Account	130,002

Investments

Pension Trust Funds:

Mututal Funds	113,736
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Total cash, cash equivalents, and investments	\$ 11,324,685
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TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

Cash and cash equivalents are classified in the accompanying financial statements as follows:

Statement of Net Assets

Cash and cash equivalents	\$ 10,928,774
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Fiduciary Funds

Cash and cash equivalents	282,175
Investments	113,736
	<u>395,911</u>
	<u>\$ 11,324,685</u>

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the exposure of the Town's debt type investments to this risk using the segmented time distribution model is as follows:

	Fair Value	Investment Maturities (in Years) <u>Less Than 1 Year</u>
Pooled Income Funds	<u>\$4,247,091</u>	<u>\$ 4,247,091</u>

Credit Risk: Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. Presented below is the minimum rating as required for each debt type investment.

	Average Rating	Pooled Income Fund
State Short-Term Investment Fund	AAAm	\$ 4,117,089
MBIA, Inc.	AAA	130,002
		<u>\$ 4,247,091</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007

Note 5. Unearned Revenue/Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue and deferred revenue reported in the governmental funds and governmental activities were as follows:

	Deferred Revenues	Unearned Revenues
General Fund:		
Taxes and accrued interest on delinquent property taxes	\$ 1,052,392	\$ -
School construction grants	4,371,899	-
Nonmajor Funds:		
Assessments receivable	386,434	-
Grants and other	-	208,704
Total	<u>\$ 5,810,725</u>	<u>\$ 208,704</u>

Note 6. Interfund Transfers

Interfund transfers during the year ended June 30, 2007 were as follows:

	Transfers In	Transfers Out
General Fund	\$ 1,295	\$ 411,160
Bonded Projects	105,000	-
Nonmajor Governmental Funds	306,160	1,295
Total	<u>\$ 412,455</u>	<u>\$ 412,455</u>

Transfers are used to account for financing by the General Fund of programs accounted for in other funds in accordance with budgetary authorizations.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,171,349	\$ 261,030	\$ -	\$ 3,432,379
Construction in progress	40,591,445	30,290	(40,591,445)	30,290
Total capital assets, not being depreciated	43,762,794	291,320	(40,591,445)	3,462,669
Capital assets, being depreciated:				
Improvements other than buildings	1,485,124	-	-	1,485,124
Buildings	45,740,181	42,834,517	-	88,574,698
Machinery and equipment	9,647,427	1,052,207	(576,866)	10,122,768
Infrastructure	34,453,788	381,297	-	34,835,085
Total capital assets being depreciated	91,326,520	44,268,021	(576,866)	135,017,675
Less accumulated depreciation for:				
Improvements other than buildings	988,506	68,177	-	1,056,683
Buildings	17,713,896	1,927,841	-	19,641,737
Machinery and equipment	7,338,978	577,889	(526,095)	7,390,772
Infrastructure	18,372,846	1,551,540	-	19,924,386
Total accumulated depreciation	44,414,226	4,125,447	(526,095)	48,013,578
Total capital assets, being depreciated, net	46,912,294	40,142,574	(50,771)	87,004,097
Governmental activities capital assets, net	\$ 90,675,088	\$ 40,433,894	\$ (40,642,216)	\$ 90,466,766

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 168,631	\$ 39,914	\$ -	\$ 208,545
Total capital assets, not being depreciated	168,631	39,914	-	208,545
Capital assets, being depreciated:				
Buildings	2,082,020	-	-	2,082,020
Machinery and equipment	10,704	79,755	-	90,459
Improvements other than buildings	21,391	-	-	21,391
Infrastructure	3,180,923	-	-	3,180,923
Total capital assets, being depreciated	5,295,038	79,755	-	5,374,793
Less accumulated depreciation for:				
Buildings	818,645	47,133	-	865,778
Machinery and equipment	6,148	7,613	-	13,761
Improvements other than buildings	11,425	997	-	12,422
Infrastructure	1,103,492	52,915	-	1,156,407
Total accumulated depreciation	1,939,710	108,658	-	2,048,368
Total capital assets, being depreciated, net	3,355,328	(28,903)	-	3,326,425
Business-type activities capital assets, net	\$ 3,523,959	\$ 11,011	\$ -	\$ 3,534,970

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 1,391,937
Public works	458,730
Public safety	201,491
Civic and cultural	217,407
Public health and welfare	12,545
Education	1,843,337
Total depreciation expense – governmental activities	\$ 4,125,447

Business-Type Activities:

Water Fund	\$ 108,658
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TOWN OF COLCHESTER, CONNECTICUT**NOTES TO FINANCIAL STATEMENTS, Continued**
June 30, 2007

Note 8. Long-Term Obligations

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 31,645,000	\$ -	\$ 3,785,000	\$ 27,860,000	\$ 3,505,000
Landfill post-closure monitoring	270,000	-	15,000	255,000	15,000
Compensated absences	1,995,000	163,390	117,390	2,041,000	51,000
Governmental activity long-term liabilities	\$ 33,910,000	\$ 163,390	\$ 3,917,390	\$ 30,156,000	\$ 3,571,000
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 405,000	\$ -	\$ 70,000	\$ 335,000	\$ 70,000

All bonds are general obligations of the town and are secured by the taxing authority powers of the Town.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007

General obligation bonds outstanding as of June 30, 2007 consisted of the following:

	<u>Outstanding Amount</u>
General obligation bonds payable:	
\$10,800,000 bond, issue of 2005 due 2025, annual principal payments range from \$645,000 to \$540,000 plus interest due semi-annually at 3.25% to 4.5%	\$ 10,155,000
\$9,460,000 bond, issue of 2001 due 2021, annual principal payments range from \$390,000 to \$670,000, plus interest due semiannually at 4.0% to 5.5%	5,495,000
\$4,500,000 bond, issue of 1987 due 2008, annual principal payments of \$215,000 plus interest due semiannually at 6.7% to 7.2%	215,000
\$4,500,000 bond, issue of 1988 due 2009, annual principal payments of \$235,000 plus interest due semiannually at 7.2% to 7.3%	235,000
\$5,180,000 bond, issue of 2002 due 2012, annual principal payments range from \$595,000 to \$465,000 plus interest due semiannually at 2.0% to 4.5%	2,430,000
\$730,000 bond, issue of 2002 due 2013, annual principal payments range from \$95,000 to \$110,000 plus interest due semiannually at 3.0% to 4.0%	300,000
\$4,000,000 bond, issue of 1991 due 2012, annual principal payments range from \$215,000 to \$130,000 plus interest due semiannually at 5.6% to 6.5%	990,000
\$5,985,000 bond, issue of 2002 due 2023, annual principal payments range from \$550,000 to \$270,000 plus interest due semiannually at 3.0% to 4.7%	4,060,000
\$14,450,000 bond, issue of 1997 due 2012, annual principal payments range from \$885,000 to \$1,000,000 plus interest due semiannually at 3.5% to 5.5%	<u>3,980,000</u>
Total general obligation bonds payable	<u><u>\$ 27,860,000</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007

The following is a summary as of June 30, 2007, of the future principal and interest requirements for the Town's general obligation bonds:

	Principal	Interest	Total
2008	\$ 3,505,000	\$ 1,179,364	\$ 4,684,364
2009	3,035,000	1,018,201	4,053,201
2010	3,000,000	889,798	3,889,798
2011	2,885,000	760,403	3,645,403
2012	2,185,000	650,509	2,835,509
2013	1,210,000	570,657	1,780,657
2014	1,210,000	521,572	1,731,572
2015	1,200,000	469,972	1,669,972
2016	1,200,000	413,152	1,613,152
2017	1,200,000	364,522	1,564,522
2018	1,200,000	314,947	1,514,947
2019	1,200,000	262,103	1,462,103
2020	1,200,000	208,013	1,408,013
2021	1,200,000	153,653	1,353,653
2022	810,000	99,090	909,090
2023	540,000	64,800	604,800
2024	540,000	43,200	583,200
2025	540,000	21,600	561,600
Total	<u>\$ 27,860,000</u>	<u>\$ 8,005,556</u>	<u>\$ 35,865,556</u>

Enterprise fund general obligation bonds:

\$640,000 bond issue of October 2002, due 2013, annual principal payments ranging from \$25,000 to \$70,000 plus interest due semiannually at 3.00% to 4.00%

\$ 335,000

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007

The annual debt service requirements of the bonds payable in the enterprise fund are as follows:

	Principal	Interest	Total
2008	\$ 70,000	\$ 12,565	\$ 82,565
2009	70,000	10,115	80,115
2010	70,000	7,490	77,490
2011	50,000	4,900	54,900
2012	50,000	3,000	53,000
2013	25,000	1,000	26,000
Total	<u>\$ 335,000</u>	<u>\$ 39,070</u>	<u>\$ 374,070</u>

School bond reimbursements

The State of Connecticut reimburses the Town for eligible school bond principal and interest costs. The amount of such reimbursement for the year ended June 30, 2007 was approximately \$1,182,000. Additional payments for principal and interest aggregating approximately \$4,903,000 are expected to be received through the bonds' maturity dates.

Debt limitation

The Town's statement of debt limitation under Connecticut General Statutes, Section 7-434(b) as of June 30, 2007, is as follows:

Total tax collections (including interest and lien fees) for the year ended June 30, 2007	\$ 28,305,467
Reimbursement for revenue loss:	
Tax relief for elderly	57,135
Base	<u>\$ 28,362,602</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007

The Connecticut General Statutes provides that total authorized debt of the Town shall not exceed seven times the above base cash receipts of \$28,362,602 nor shall the total authorized particular purpose debt exceed the individual debt limitations reflected in the table below:

	General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit
Debt limitation:					
2-1/4 times base	\$63,815,855	\$ -	\$ -	\$ -	\$ -
4-1/2 times base	-	127,631,709	-	-	-
3-3/4 times base	-	-	106,359,758	-	-
3-1/4 times base	-	-	-	92,178,457	-
3 times base	-	-	-	-	85,087,806
Total debt limitation	63,815,855	127,631,709	106,359,758	92,178,457	85,087,806
Debt as defined by statute:					
Bonds payable ⁽¹⁾	4,381,300	23,172,200	306,500	-	-
Authorized and unissued	-	29,856,800	-	-	-
Total indebtedness	4,381,300	53,029,000	306,500	-	-
School construction grants receivable	-	(4,371,899)	-	-	-
Net indebtedness	4,381,300	48,657,101	306,500	-	-
Debt limitation in excess of outstanding and authorized debt	\$59,434,555	\$ 78,974,608	\$ 106,053,258	\$ 92,178,457	\$ 85,087,806

⁽¹⁾ Water bonds of \$335,000 are excluded from this calculation pursuant to Connecticut General Statutes.

Note 9. Contingent Liabilities and Commitments

Lawsuits

The Town is currently involved in several litigation matters. In the opinion of the Town's management, the final settlement of these matters will not have a material adverse effect on the financial condition of the Town.

Note 10. Pension Fund

Connecticut State Teachers' Retirement System

The faculty and professional personnel of the Board of Education participate in a contributory defined benefit plan, established under Chapter 167a of the Connecticut General Statutes, which is administered by the Connecticut State Teachers' Retirement Board. A teacher is eligible to receive normal retirement benefits if he or she has attained age sixty and has accumulated twenty years of credited service in the public schools of Connecticut or has attained any age and has

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

accumulated thirty-five years of credited service, at least twenty-five of which are service in the public schools of Connecticut. The State of Connecticut Teacher Retirement System is considered to be a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106.

Certain part-time and full-time certified teachers are eligible to participate in the plan and are required to contribute 7.25% of their annual earnings to the plan. The Town does not, and is not legally responsible to, contribute to the plan.

The State of Connecticut contributes based on actuarially determined amounts. The funding level was determined based on an actuarial valuation of the plan as a whole, which does not provide actuarial information on an individual city/town basis.

In addition, the Town has recognized revenues and expenditures for on-behalf payments for pension contributions paid directly to the Connecticut State Teachers' Retirement System by the State of Connecticut. Such on-behalf payments were approximately \$2,014,000 for the year ended June 30, 2007.

Police Department Defined Benefit Plan

The Town contributes to a defined benefit pension plan - the Town of Colchester Police Retirement Plan (the Plan), a single employer plan, effective July 1, 2005. The Plan is presented in the accompanying financial statements as a pension trust fund. A stand-alone report is not available for this plan.

1. Classes of Employees Covered

At July 1, 2006, PERS membership consisted of:

Retirees and beneficiaries receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>8</u>
Total	<u><u>8</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

2. Benefit Provisions

a. Benefit Provisions

The Town contributes to the Town of Colchester Police Pension plan, a single employer Public Employee Retirement System (PERS) established and administered by the Town to provide pension benefits for its police employees. The responsibility for the holding and investment of plan assets lies with the trustee appointed by the Retirement Board. The trustees shall be the bank or Trust company having the power to act as trustee in the State of Connecticut. The current trustee is ING. The PERS is considered part of the Town's financial reporting entity and is included in the Town's financial reports as a pension trust fund. Employees are eligible to participate on the date the employee commences making employee contributions.

The retirement benefit is calculated at 2.5% of Final Average Salary during the highest 3 plan years of active employment multiplied by years of service, with a maximum pension of 60% of Final Average Salary. Years of service is computed in whole years. Participants are 100% vested after 10 years of service. If an employee leaves covered employment or dies before 10 years of service, accumulated employee contributions and related investment earnings are refunded with retirement income being forfeited. Benefits and contributions are established by the Town and may be amended only by the Town.

b. Funding Policy

Employees are required to contribute 6% of their weekly pay and the employer picks up mandatory contributions of 6% of pay on behalf of each participant. The Town is required to contribute the remaining amounts necessary to finance the coverage for its employees.

3. Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Actual Contribution
2005	N/A	N/A	N/A
2006	\$32,201	115%	\$37,000
2007	\$44,587	94%	\$41,689

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2007

4. Actuarial Assumptions

The data presented in the schedules of funding progress and schedules of contributions were determined as part of the actuarial valuation at the date indicated. Additional information for both plans as of the latest valuation date is as follows:

Latest Actuarial Value Date	07/01/06
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Percentage of Pay
Remaining Amortization Period	21 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Projected Salary Increases	4.50%

5. Annual Pension Cost and Net Pension Obligation (Asset)

The Town's annual pension cost and net pension obligation (asset) to the Town of Colchester's Employee Retirement Plan for the current year were:

Annual required contribution	\$ 44,587
Interest on net pension obligation	(384)
Adjustment to annual required contribution	311
Annual pension cost	44,514
Contributions made	41,689
Decrease in net pension (asset)	2,825
Net pension (asset), July 1, 2006	(4,799)
Net pension (asset), June 30, 2007	<u>\$ (1,974)</u>

Three Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
06/30/05	N/A	N/A	N/A
06/30/06	\$32,201	114.9%	\$(4,799)
06/30/07	\$44,514	93.7%	\$(1,974)

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007

6. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2004	\$ -	\$ 115,794	\$ 115,794	0.0%	\$ 328,490	35.3%
July 1, 2005	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2006	\$ 43,732	\$ 193,242	\$ 149,510	22.6%	\$ 397,531	37.6%

Defined Contribution Retirement Savings Plan

Town employees are eligible to participate in a defined contribution retirement savings plan administered by the Town. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. Employer contributions are based on union contracts. Employees may make additional contributions subject to IRS regulations. The Plan is not reported as a fiduciary fund by the Town as it does not meet the reporting criterion.

Note 11. Risk Management

The Town is exposed to various risks of loss related to public official liability, police professional liability, theft or impairment of assets, errors and omissions, health of and/or injury to employees, natural disasters, and owners and contractors protective liability. The Town generally obtains commercial insurance for these risks, but has chosen to retain the risk for employee health and medical claims.

The Medical Self-Insurance Fund is funded by monthly contributions from all funds incurring payroll charges. Anthem Blue Cross/Blue Shield, administrator of the claims process, aids the Town in calculating "premium" rates per contract. Under the Town's current policy, the Medical Self-Insurance Fund covers all employee claims up to \$100,000 per claim with an aggregate stop loss of 125% of expected claims paid which was approximately \$4,983,000 for the year ended June 30, 2007.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency, and amount of payouts and other economic and social factors.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

Changes in the balance of claim liabilities are as follows:

	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
2006-2007	\$ 389,143	\$ 4,200,517	\$ 4,106,349	\$ 483,311
2005-2006	\$ 287,921	\$ 4,219,520	\$ 4,118,298	\$ 389,143

The Town purchases commercial insurance for all other risks of loss, including blanket and umbrella policies. Coverage has not been materially reduced, nor have settled claims exceeded coverage in any of the past three years.

Note 12. Landfill Postclosure Care Cost

The Town's municipal solid waste landfill stopped accepting waste in 1994. State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the site for thirty years after closure. The remaining postclosure costs are estimated to be \$255,000 (\$15,000 per year for 17 years). Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The responsibility for postclosure monitoring will remain with the Town.

Note 13. Fund Deficits

The following funds had fund deficits as of June 30, 2007:

Bonded Projects Fund	\$ 2,219,113
Miscellaneous Grant Fund	\$ 13,905

The fund deficits are expected to be repaid with future revenues, future bonding or transfers.

Note 14. Pronouncements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2007 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

- ▶ GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," issued June 2004, will be effective for the Town beginning with its year ending June 30, 2009. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits, expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

- ▶ Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues," issued September 2006, is effective for periods beginning after December 15, 2006. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition, this Statement establishes accounting and financial reporting standards for intra-entity of assets and future revenues.
- ▶ GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," issued December 1, 2006, will be effective for the Town beginning with its fiscal year ended June 30, 2008, but the liability should be measured at July 1, 2007 so that beginning net assets can be restated. This Statement identifies the circumstances under which a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted, if the pollution poses an imminent danger to the public or the environment, if the government has violated a pollution prevention permit or license, if the government has been named as a responsible party for cleaning up the pollution, if the government began to clean up the pollution, and if the government is named in a lawsuit. In addition, it provides disclosure information about their pollution obligations associated with clean-up efforts.
- ▶ GASB Statement No. 50, "Pension Disclosures - an Amendment of GASB Statements No. 25 and No. 27," issued May, 2007. This Statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by the Statement amend applicable note disclosure and RSI requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," and No. 27, "Accounting for Pensions by State and Local Governmental Employers," to conform with requirements of Statements No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," and No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later.
- ▶ GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets," issued June, 2007. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The objective of this Statement is to establish

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009 or later.

**Supplemental and Combining
Fund Statements and Schedules**

General Fund

TOWN OF COLCHESTER, CONNECTICUT

GENERAL FUND

BALANCE SHEET

June 30, 2007 With Comparative Amounts for 2006

	2007	2006
Assets		
Cash and cash equivalents	\$ 6,640,799	\$ 7,571,265
Property taxes and interest receivable, net	1,202,457	910,676
Other receivables	24,819	126,437
Inventory	31,180	47,578
School construction grant receivable	4,371,899	5,554,377
Total assets	\$ 12,271,154	\$ 14,210,333
Liabilities		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,780,668	\$ 1,863,278
Deferred revenue	5,424,291	6,323,143
Advance tax collections	36,668	23,169
Total liabilities	7,241,627	8,209,590
Fund Balance		
Reserved for encumbrances	143,142	239,028
Reserved for inventory	31,180	47,578
Designated for subsequent year budget	725,400	1,430,665
Unreserved, undesignated	4,129,805	4,283,472
Total fund balance	5,029,527	6,000,743
Total liabilities and fund balance	\$ 12,271,154	\$ 14,210,333

TOWN OF COLCHESTER, CONNECTICUT

**GENERAL FUND REVENUES AND TRANSFERS IN -
BUDGETARY BASIS - BUDGET AND ACTUAL
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
PROPERTY TAXES				
Current year levy	\$ 28,333,875	\$ 28,333,875	\$ 27,637,038	\$ (696,837)
Prior years levy	350,000	350,000	412,118	62,118
Interest and lien fees	240,000	240,000	266,145	26,145
Total property taxes	28,923,875	28,923,875	28,315,301	(608,574)
INTERGOVERNMENTAL				
State of Connecticut:				
Sanitarian/Health Director grant	14,413	14,413	14,632	219
In lieu of taxes	65,000	65,000	67,702	2,702
Elderly freeze	4,181	4,181	4,181	-
Elderly circuit breaker	67,135	67,135	57,135	(10,000)
Disability exemption	1,714	1,714	1,740	26
Additional veteran exemption	8,925	8,925	6,707	(2,218)
Property tax relief/manufacturing	61,571	61,571	33,423	(28,148)
Boat registration	3,264	3,264	3,264	-
Local Capital Improvement Program	119,956	119,956	117,627	(2,329)
Mashantucket Pequot/Mohegan Grant	112,388	112,388	117,495	5,107
Property Tax Relief Grant	-	-	88,502	88,502
Distribution to towns	175	175	10,824	10,649
Youth Services Grant	18,702	18,702	18,745	43
Library Grant	3,500	3,500	4,552	1,052
Total State of Connecticut	480,924	480,924	546,529	65,605
Education:				
Special Education	300,000	300,000	626,649	326,649
Education cost sharing	11,503,712	11,503,712	11,540,190	36,478
School transportation	458,812	458,812	412,496	(46,316)
School building grants	1,447,587	1,447,587	1,449,458	1,871
Educational Service for the Blind	-	-	14,892	14,892
Total education	13,710,111	13,710,111	14,043,685	333,574
Total intergovernmental	14,191,035	14,191,035	14,590,214	399,179
REVENUES FROM USE OF MONEY				
Investment income	220,000	220,000	503,322	283,322

TOWN OF COLCHESTER, CONNECTICUT

**GENERAL FUND REVENUES AND TRANSFERS IN -
BUDGETARY BASIS - BUDGET AND ACTUAL, Continued
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
CHARGES FOR SERVICES				
Special Duty - Police	18,000	35,770	47,327	11,557
Sanitarian fees	27,000	27,000	19,025	(7,975)
Restaurant inspection fees	8,000	8,000	9,570	1,570
Recreation	14,000	14,000	21,241	7,241
Ambulance	300,000	300,000	355,573	55,573
Total charges for services	367,000	384,770	452,736	67,966
LICENSES, PERMITS AND FEES				
Fire Marshal inspection fees	200	200	160	(40)
Sports licenses	1,800	1,800	2,009	209
Transfer station fees	163,500	163,500	166,080	2,580
Conservation Commission fees	4,000	4,000	3,871	(129)
Road inspection fees	23,670	23,670	29,268	5,598
Building code fees	201,000	201,000	176,480	(24,520)
Conveyance tax	175,000	175,000	218,114	43,114
Zoning and planning fees	10,000	10,000	12,725	2,725
Zoning appeal fees	1,000	1,000	2,310	1,310
Copier fees	18,050	18,050	19,600	1,550
Town Clerk fees	135,000	135,000	122,433	(12,567)
Vendor permits	600	600	597	(3)
Pistol permits	700	700	1,085	385
Library fines and fees	17,000	17,000	11,099	(5,901)
Senior program fees	200	200	203	3
Dial-A-Ride	2,500	2,500	3,226	726
Historic District Commission fees	4,300	4,300	3,905	(395)
Total licenses, permits and fees	758,520	758,520	773,165	14,645

TOWN OF COLCHESTER, CONNECTICUT

**GENERAL FUND REVENUES AND TRANSFERS IN -
BUDGETARY BASIS - BUDGET AND ACTUAL, Continued
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
OTHER REVENUES				
Tuition - regular	15,200	15,200	44,158	28,958
Telecommunications tax	77,518	77,518	82,399	4,881
State Fund for building inspection	1,800	1,800	1,722	(78)
Elderly housing	11,500	11,500	11,494	(6)
Miscellaneous	2,500	2,500	40,997	38,497
Insurance reimbursement	-	-	2,506	2,506
Lebanon share probate fee	3,067	3,067	1,808	(1,259)
Street Lights - CL&P Refund	-	-	68,011	68,011
Total other revenues	111,585	111,585	253,095	141,510
OTHER FINANCING USES				
Transfers In	1,526	1,526	1,295	(231)
Total	\$ 44,573,541	\$ 44,591,311	\$ 44,889,128	\$ 297,817

TOWN OF COLCHESTER, CONNECTICUT

**GENERAL FUND EXPENDITURES AND TRANSFERS OUT -
BUDGETARY BASIS - BUDGET AND ACTUAL
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
GENERAL GOVERNMENT				
Board of Finance	\$ 63,751	\$ 23,751	\$ 20,988	\$ 2,763
First Selectman	187,180	165,849	159,769	6,080
Ethics Commission	1,088	1,088	132	956
Charter Review Commission	3,115	50,093	49,570	523
Tax Collector	133,163	133,163	126,302	6,861
Assessors	225,217	220,138	216,300	3,838
Board of Tax Review	1,711	2,365	2,289	76
Accounting	235,934	235,935	230,901	5,034
Economic Development	5,036	5,036	1,870	3,166
Historic District Commission	2,376	2,376	1,620	756
Town Clerk	175,884	177,898	169,679	8,219
Elections	40,115	42,315	41,117	1,198
Legal and Insurance	1,218,470	1,293,361	1,292,272	1,089
Probate	9,200	9,200	5,136	4,064
Planning/Code Administration	443,564	412,114	390,886	21,228
Central Services and Facilities	185,721	185,954	178,405	7,549
Fair Rent Commission	399	399	22	377
Police Retirement Board	-	3,756	3,752	4
Total general government	2,931,924	2,964,791	2,891,010	73,781
PUBLIC WORKS				
Highway	1,223,112	1,200,972	1,188,102	12,870
Fleet maintenance	309,014	304,042	301,057	2,985
Snow removal	181,615	202,255	202,252	3
Sewer	3,071	3,071	2,985	86
Transfer Station	323,508	313,508	308,500	5,008
Engineering	91,343	91,343	88,066	3,277
Total public works	2,131,663	2,115,191	2,090,962	24,229

TOWN OF COLCHESTER, CONNECTICUT

**GENERAL FUND EXPENDITURES AND TRANSFERS OUT -
BUDGETARY BASIS - BUDGET AND ACTUAL, Continued
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual Budgetary	Variance With Final Budget
	Original	Final	Basis	Positive (Negative)
PUBLIC SAFETY				
Police	948,519	932,495	898,567	33,928
Fire	777,854	787,854	772,192	15,662
Fire Substation	15,119	15,119	10,794	4,325
Civil preparedness	20,451	20,451	12,922	7,529
Central Alarm	73,093	73,093	73,093	-
Total public safety	1,835,036	1,829,012	1,767,568	61,444
CIVIC AND CULTURAL				
Library services	519,905	520,106	512,819	7,287
Parks and recreation	569,565	563,774	558,569	5,205
Arts council	1,826	570	200	370
Senior Services	236,123	236,206	225,204	11,002
Total civic and cultural	1,327,419	1,320,656	1,296,792	23,864
PUBLIC HEALTH AND WELFARE				
Health & Safety Committee	2,290	2,290	1,832	458
Social services	32,425	32,425	30,879	1,546
Youth services	227,411	232,656	227,844	4,812
Health services	151,726	151,726	139,299	12,427
Total health and welfare	413,852	419,097	399,854	19,243
BOARD OF EDUCATION	31,901,948	31,901,948	31,886,030	15,918
DEBT SERVICE				
Principal	3,680,000	3,680,000	3,680,000	-
Interest	1,341,082	1,341,082	1,341,082	-
Total debt service	5,021,082	5,021,082	5,021,082	-
OTHER FINANCING USES				
Transfers out	210,617	411,160	411,160	-
Total	\$ 45,773,541	\$ 45,982,937	\$ 45,764,458	\$ 218,479

Nonmajor Governmental Funds

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TOWN OF COLCHESTER, CONNECTICUT

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

June 30, 2007

	Special Revenue						
	Police Forfeiture Fund	Capital Reserve Fund	Dog License Fund	Town Aid Road Fund	Small Cities Grants	Sewer Operating Fund	Parks and Recreation Activities Fund
ASSETS							
Cash and cash equivalents	\$ 329	\$ 547,197	\$ 71,416	\$ 132,553	\$ 208,704	\$ 194,611	\$ 68,839
Assessments and user charges receivable	-	-	-	-	-	213,916	-
Other receivables	-	-	551	-	-	-	-
Intergovernmental receivable	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-
Loans receivable	-	-	-	-	5,976	-	-
Total assets	<u>\$ 329</u>	<u>\$ 547,197</u>	<u>\$ 71,967</u>	<u>\$ 132,553</u>	<u>\$ 214,680</u>	<u>\$ 408,527</u>	<u>\$ 68,839</u>
LIABILITIES AND FUND BALANCES (DEFICITS)							
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ 4,804	\$ 12	\$ -	\$ 4,418	\$ 15,743
Deferred revenue	-	-	-	-	-	213,916	-
Unearned revenue	-	-	-	-	208,704	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>4,804</u>	<u>12</u>	<u>208,704</u>	<u>218,334</u>	<u>15,743</u>
FUND BALANCES (DEFICITS)							
Reserved for encumbrances	-	14,964	-	12,386	-	-	-
Reserved for inventory	-	-	-	-	-	-	-
Reserved for loans	-	-	-	-	5,976	-	-
Designated for specific projects	-	-	-	-	-	-	-
Unreserved and undesignated	329	532,233	67,163	120,155	-	190,193	53,096
Total fund balances (deficits)	<u>329</u>	<u>547,197</u>	<u>67,163</u>	<u>132,541</u>	<u>5,976</u>	<u>190,193</u>	<u>53,096</u>
Total liabilities and fund balances (deficits)	<u>\$ 329</u>	<u>\$ 547,197</u>	<u>\$ 71,967</u>	<u>\$ 132,553</u>	<u>\$ 214,680</u>	<u>\$ 408,527</u>	<u>\$ 68,839</u>

Special Revenue								
School Cafeteria Fund	Educational Grants Fund	Miscellaneous Grants Fund	Adult Education	Special Gifts Fund	Benefits Assessment Fund	Pay to Play	Use of Schools	BOE Capital Reserve Fund
\$ 141,523	\$ -	\$ -	\$ 866	\$ 232,724	\$ 138,886	\$ 200	\$ 678	\$ 73,260
-	-	-	-	-	172,518	-	-	-
-	2,523	-	-	-	-	-	6,385	-
28,186	118,850	13,870	-	-	-	-	-	-
1,260	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>\$ 170,969</u>	<u>\$ 121,373</u>	<u>\$ 13,870</u>	<u>\$ 866</u>	<u>\$ 232,724</u>	<u>\$ 311,404</u>	<u>\$ 200</u>	<u>\$ 7,063</u>	<u>\$ 73,260</u>
\$ -	\$ 121,373	\$ 27,775	\$ 92	\$ 1,390	\$ 1,455	\$ 200	\$ -	\$ 2,505
-	-	-	-	-	172,518	-	-	-
-	-	-	-	-	-	-	-	-
<u>-</u>	<u>121,373</u>	<u>27,775</u>	<u>92</u>	<u>1,390</u>	<u>173,973</u>	<u>200</u>	<u>-</u>	<u>2,505</u>
-	-	40,000	-	2,771	-	-	-	-
1,260	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	70,755
<u>169,709</u>	<u>-</u>	<u>(53,905)</u>	<u>774</u>	<u>228,563</u>	<u>137,431</u>	<u>-</u>	<u>7,063</u>	<u>-</u>
<u>170,969</u>	<u>-</u>	<u>(13,905)</u>	<u>774</u>	<u>231,334</u>	<u>137,431</u>	<u>-</u>	<u>7,063</u>	<u>70,755</u>
<u>\$ 170,969</u>	<u>\$ 121,373</u>	<u>\$ 13,870</u>	<u>\$ 866</u>	<u>\$ 232,724</u>	<u>\$ 311,404</u>	<u>\$ 200</u>	<u>\$ 7,063</u>	<u>\$ 73,260</u>

(Continued)

TOWN OF COLCHESTER, CONNECTICUT

COMBINING BALANCE SHEET, Continued
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2007

	Capital Projects	
	Sewer Construction	Totals
ASSETS		
Cash and cash equivalents	\$ 1,179,157	\$ 2,990,943
Assessments and user charges receivable	-	386,434
Other receivables	-	9,459
Intergovernmental receivable	-	160,906
Inventory	-	1,260
Loans receivable	-	5,976
Total assets	\$ 1,179,157	\$ 3,554,978
LIABILITIES AND FUND BALANCES (DEFICITS)		
LIABILITIES		
Accounts payable	\$ 42,230	\$ 221,997
Deferred revenue	-	386,434
Unearned revenue	-	208,704
Total liabilities	42,230	817,135
FUND BALANCES (DEFICITS)		
Reserved for encumbrances	-	70,121
Reserved for inventory	-	1,260
Reserved for loans	-	5,976
Designated for specific projects	-	70,755
Unreserved and undesignated	1,136,927	2,589,731
Total fund balances (deficits)	1,136,927	2,737,843
Total liabilities and fund balances (deficits)	\$ 1,179,157	\$ 3,554,978

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TOWN OF COLCHESTER, CONNECTICUT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) NONMAJOR GOVERNMENTAL FUNDS For the Year Ended June 30, 2007

	Special Revenue						Parks and Recreation Activities Fund
	Police Forfeiture Fund	Capital Reserve Fund	Dog License Fund	Town Aid Road Fund	Small Cities Grants	Sewer Operating Fund	
REVENUES							
Intergovernmental	\$ -	\$ -	\$ -	\$ 175,802	\$ 432,397	\$ -	\$ -
Food sales, charges for services	-	-	-	-	-	-	-
Fines and fees	-	-	28,122	-	-	-	-
Interest income	-	-	-	-	-	3,913	-
Sewer assessments, use and charges for services	-	-	-	-	-	775,585	252,805
Other local revenue	-	118,878	-	-	46,858	7,662	-
Total revenues	-	118,878	28,122	175,802	479,255	787,160	252,805
EXPENDITURES							
General government	-	-	-	-	-	-	-
Public works	-	-	-	-	-	719,857	-
Education	-	-	-	-	-	-	-
Public safety	-	-	82,848	-	-	-	-
Civic and cultural	-	-	-	-	-	-	297,173
Public health and welfare	-	-	-	-	479,079	-	-
Capital outlay	-	185,229	-	148,055	-	20,113	-
Debt service	-	-	-	-	-	-	-
Total expenditures	-	185,229	82,848	148,055	479,079	739,970	297,173
Revenues over (under) expenditures	-	(66,351)	(54,726)	27,747	176	47,190	(44,368)
OTHER FINANCING SOURCES (USES)							
Transfers in	-	156,878	58,617	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	156,878	58,617	-	-	-	-
Net change in fund balances (deficits)	-	90,527	3,891	27,747	176	47,190	(44,368)
FUND BALANCES, beginning	329	456,670	63,272	104,794	5,800	143,003	97,464
FUND BALANCES (DEFICITS), ending	\$ 329	\$ 547,197	\$ 67,163	\$ 132,541	\$ 5,976	\$ 190,193	\$ 53,096

Special Revenue Fund								
School Cafeteria Fund	Educational Grants Fund	Miscellaneous Grants Fund	Adult Education	Special Gifts Fund	Benefits Assessment Fund	Pay to Play	Use of Schools	BOE Capital Reserve Fund
\$ 174,017	\$1,166,487	\$ 215,342	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
507,062	-	-	-	-	56,633	-	-	-
-	-	-	-	-	-	-	-	-
307	-	-	-	-	2,436	-	-	-
-	-	-	20,643	-	-	49,800	31,631	-
-	6,200	20,153	-	79,020	-	-	-	-
681,386	1,172,687	235,495	20,643	79,020	59,069	49,800	31,631	-
-	-	10,055	-	2,284	-	-	-	-
-	-	25,223	-	-	5,378	-	-	-
626,065	1,172,687	-	24,414	2,616	-	49,800	27,421	-
-	-	45,105	-	-	-	-	-	-
-	-	74,540	-	40,578	-	-	-	-
-	-	14,208	-	28,499	-	-	-	-
-	-	50,618	-	-	-	-	-	19,245
-	-	-	-	-	119,352	-	-	-
626,065	1,172,687	219,749	24,414	73,977	124,730	49,800	27,421	19,245
55,321	-	15,746	(3,771)	5,043	(65,661)	-	4,210	(19,245)
-	-	-	-	665	-	-	-	90,000
-	-	-	-	-	(1,295)	-	-	-
-	-	-	-	665	(1,295)	-	-	90,000
55,321	-	15,746	(3,771)	5,708	(66,956)	-	4,210	70,755
115,648	-	(29,651)	4,545	225,626	204,387	-	2,853	-
\$ 170,969	\$ -	\$ (13,905)	\$ 774	\$ 231,334	\$ 137,431	\$ -	\$ 7,063	\$ 70,755

(Continued)

TOWN OF COLCHESTER, CONNECTICUT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICITS), Continued
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007**

	Capital Projects	
	Sewer Construction	Totals
REVENUES		
Intergovernmental	\$ -	\$ 2,164,045
Food sales, charges for services	-	563,695
Fines and fees	-	28,122
Interest income	15,009	21,665
Sewer assessments, use and charges for services	81,650	1,212,114
Other local revenue	-	278,771
Total revenues	<u>96,659</u>	<u>4,268,412</u>
EXPENDITURES		
General government	-	12,339
Public works	-	750,458
Education	-	1,903,003
Public safety	-	127,953
Civic and cultural	-	412,291
Public health and welfare	-	521,786
Capital outlay	96,655	519,915
Debt service	-	119,352
Total expenditures	<u>96,655</u>	<u>4,367,097</u>
Revenues over (under) expenditures	<u>4</u>	<u>(98,685)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	306,160
Transfers out	-	(1,295)
Total other financing sources (uses)	<u>-</u>	<u>304,865</u>
Net change in fund balances (deficits)	<u>4</u>	<u>206,180</u>
FUND BALANCES, beginning	<u>1,136,923</u>	<u>2,531,663</u>
FUND BALANCES (DEFICITS), ending	<u>\$ 1,136,927</u>	<u>\$ 2,737,843</u>

Capital Assets Schedules

TOWN OF COLCHESTER, CONNECTICUT

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS -
SCHEDULE BY CATEGORY**

June 30, 2007

Governmental funds capital assets:

Land	\$ 3,432,379
Buildings	88,574,698
Improvements other than buildings	1,485,124
Machinery and equipment	10,122,768
Infrastructure	34,835,085
Construction in progress	30,290
Total governmental funds capital assets	\$ 138,480,344

TOWN OF COLCHESTER, CONNECTICUT

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

SCHEDULE BY FUNCTION AND ACTIVITY

June 30, 2007

	Land	Buildings	Improvements Other Than Buildings	Infrastructure	Machinery and Equipment	Construction in Progress	Total
General government	\$ 3,432,379	\$ 2,467,695	\$ 1,478,624	\$ 21,356,707	\$ 238,529	\$ -	\$ 28,973,934
Public safety	-	937,823	-	13,832	3,368,014	-	4,319,669
Public works	-	397,929	-	13,195,767	2,261,045	-	15,854,741
Civic and cultural	-	7,499,844	-	268,779	806,291	-	8,574,914
Education	-	77,164,618	6,500	-	3,373,677	-	80,544,795
Public health and welfare	-	106,789	-	-	75,212	-	182,001
Construction in progress	-	-	-	-	-	30,290	30,290
Total	\$ 3,432,379	\$ 88,574,698	\$ 1,485,124	\$ 34,835,085	\$10,122,768	\$ 30,290	\$ 138,480,344

Other Schedule

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TOWN OF COLCHESTER, CONNECTICUT

SCHEDULE OF PROPERTY TAXES LEVIED, COLLECTED AND OUTSTANDING For the Year Ended June 30, 2007

Grand List Year	Balance		Current Levy	Lawful Corrections		Balance To Be Collected				
	Uncollected July 1, 2006			Additions	Deletions					
1990	\$	473	\$	-	\$	19	\$	-	\$	492
1991		185		-		-		-		185
1992		(2,358)		-		-		-		(2,358)
1993		(1,771)		-		-		-		(1,771)
1994		1,359		-		-		-		1,359
1995		(2,462)		-		14		-		(2,448)
1996		745		-		-		-		745
1997		679		-		60		-		739
1998		4,104		-		572		-		4,676
1999		39,764		-		324		(83)		40,005
2000		26,108		-		466		(171)		26,403
2001		41,293		-		-		(1,560)		39,733
2002		122,500		-		643		(1,091)		122,052
2003		205,992		-		1,208		(8,432)		198,768
2004		578,155		-		3,489		(42,162)		539,482
2005		-		28,395,186		98,161		(129,860)		28,363,487
	\$	1,014,766	\$	28,395,186	\$	104,956	\$	(183,359)	\$	29,331,549

Collections				Balance
				Uncollected
Taxes	Interest	Fees	Total	June 30, 2007
\$ 19	\$ 57	\$ -	\$ 76	\$ 473
-	-	-	-	185
-	-	-	-	(2,358)
-	-	-	-	(1,771)
685	1,499	24	2,208	674
781	1,575	24	2,380	(3,229)
1,015	1,718	24	2,757	(270)
891	1,372	24	2,287	(152)
2,150	3,517	24	5,691	2,526
5,483	4,297	48	9,828	34,522
896	1,531	24	2,451	25,507
6,115	11,036	78	17,229	33,618
13,375	8,556	180	22,111	108,677
60,819	26,456	643	87,918	137,949
308,730	68,283	2,268	379,281	230,752
27,638,224	133,026	-	27,771,250	725,263
\$ 28,039,183	\$ 262,923	\$ 3,361	\$ 28,305,467	\$ 1,292,366

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